

# Public Belt Railroad Commission for the City of New Orleans

Management's Discussion and Analysis,  
Financial Statements as of and for the  
Year Ended December 31, 2007,  
Additional Information for the Years Ended  
December 31, 2007 and 2006, and  
Independent Auditors' Report

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/6/08

# **PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS**

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## INDEPENDENT AUDITORS' REPORT

To the President and Members of  
Public Belt Railroad Commission  
for the City of New Orleans  
New Orleans, Louisiana

We have audited the accompanying basic financial statements of the individual funds of the Public Belt Railroad Commission for the City of New Orleans (the "Commission") as of December 31, 2007, and for the year then ended, listed in the accompanying table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of the individual funds of the Public Belt Railroad Commission for the City of New Orleans as of December 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2008, on our consideration of the Public Belt Railroad Commission for the City of New Orleans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the Public Belt Railroad Commission for the City of New Orleans' management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Deloitte & Touche LLP*

July 25, 2008

## **Management's Discussion and Analysis (Unaudited)**

This narrative discussion and analysis is intended to serve as an introduction to the basic financial statements as of and for the year ended December 31, 2007, of the individual funds of the Public Belt Railroad Commission for the City of New Orleans (the "Commission"). The information presented here should be read in conjunction with the basic financial statements, notes and additional information found in this report.

### **Overview of the Financial Statements**

The Commission operates a railroad system in and around the City of New Orleans as well as a bridge across the Mississippi River ("Huey P. Long Bridge"). The financial statements in this report present the financial condition, results of operations and cash flows of the Commission, including its railroad system fund ("Public Belt Railroad") and its bridge operations fund ("Mississippi River Bridge"). See the notes to the financial statements for a summary of the Commission's significant accounting policies.

The Commission's financial statements consist of three sections – Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the basic financial statements) and additional information. This information taken collectively is designed to provide readers with an understanding of the Commission's financial condition and its operations.

The *Balance Sheets* present information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Commission's financial position is improving or deteriorating. The *Balance Sheets* presented in this section reflect the elimination of certain inter-fund balances whereas the *Balance Sheets* presented on pages 11 and 12 do not reflect those eliminations.

The *Statements of Revenues, Expenses and Changes in Net Assets* present information showing how the Commission's net assets changed as a result of current year operations. Changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not affect cash until future fiscal periods.

The *Statements of Cash Flows* present information showing how the Commission's cash balance changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes a reconciliation of net income to net cash provided by operating activities (indirect method) as required by Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This reconciliation is provided to assist in the understanding of the difference between cash flows from operating activities and net income (loss).

## Financial Position

### Summary of Net Assets

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
<b>ASSETS:</b>				
Current and other assets	\$ 16,192,818	\$ 16,440,456	\$ (247,638)	(1.5%)
Net capital assets	39,849,699	28,625,833	11,223,866	39.2%
Total Assets	56,042,517	45,066,289	10,976,228	24.4%
<b>LIABILITIES:</b>				
Current liabilities excluding reserves	6,509,776	3,115,063	3,394,713	109%
Long-term liabilities	542,397	0	542,397	NM*
Casualty and other reserves	1,575,000	889,451	685,549	77.1%
Total Liabilities	8,627,173	4,004,514	4,622,659	115.4%
<b>NET ASSETS:</b>				
Invested in Capital Assets	39,167,352	28,625,833	10,541,519	36.8%
Unrestricted	8,247,992	12,435,942	(4,187,950)	(33.7%)
Total Net Assets	\$ 47,415,344	\$ 41,061,775	\$ 6,353,569	15.5%

\* NM = Not Meaningful

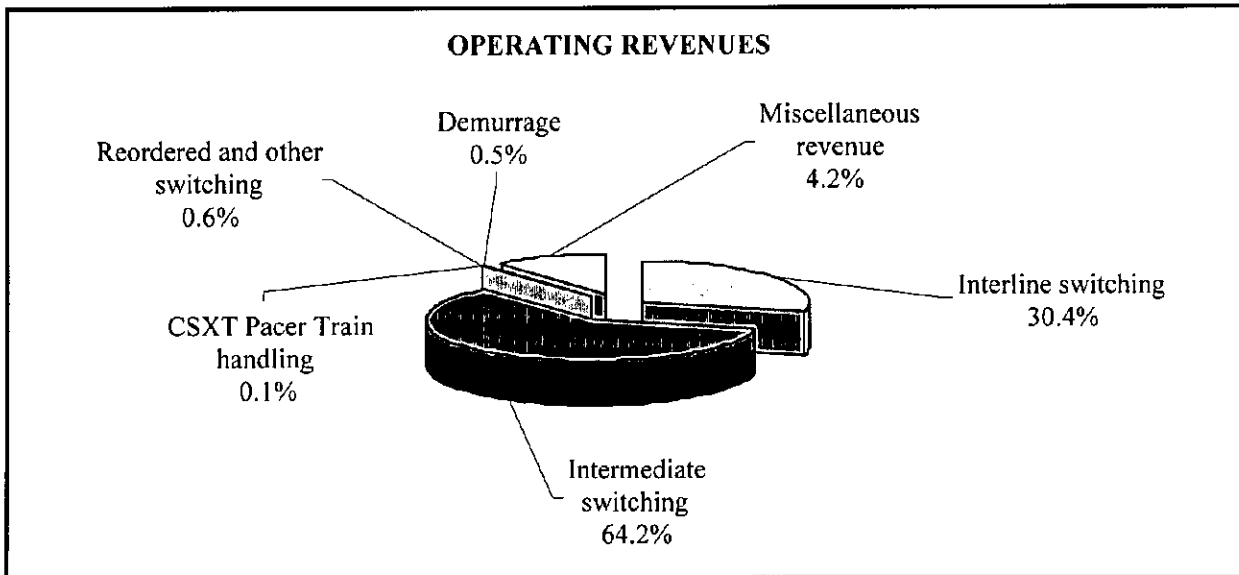
Total assets increased 24.4% in 2007 due primarily to an increase in net capital assets of \$11,223,866 (39.2%). This increase was a result of major renovations and refurbishment of railroad tracks, the business rail car "Louisiana", office and storage buildings, and other structures in anticipation of the New Orleans Public Belt Railroad's 100<sup>th</sup> anniversary in August of 2008.

Total liabilities increased 115.4% this year, due mainly to a \$3,394,714 (109%) increase in current liabilities. In 2007, post-Hurricane Katrina repairs to the Huey P. Long railroad bridge over the Mississippi River continued. Wind damage to the coating of the bridge's superstructure necessitated repainting. Also, the Centennial Project construction is in progress at December 31, 2007 at the Railroad's main office on Tchoupitoulas Street. At the end of 2007, accrued accounts payable was inflated because of large balances due to these two projects, as well as to the suppliers of materials for the rail replacement projects underway as the year came to a close.

The largest portion of the Commission's net assets (83% in 2007 and 70% in 2006) represents its investment in capital assets (e.g., land, buildings, bridges, railroad tracks, locomotives and other rolling stock, and equipment), less any related outstanding debt used to acquire those assets. At December 31, 2007, the Commission had one long-term loan outstanding with Chase Equipment Leasing for the lease-purchase and refurbishment of two used locomotives. More detailed information can be found in Note 8 to the accompanying financial statements. The Commission uses its capital assets to provide service to its Class One railroad partners and to its industry customers, primarily tenants of the Port of New Orleans; consequently, these assets are not available for future spending. The Commission's unrestricted net assets, \$8,247,992 for 2007, may be used to meet the Commission's ongoing obligations.

## Operating Revenues

The following chart shows major sources and the percentage of operating revenues for the year ended December 31, 2007.



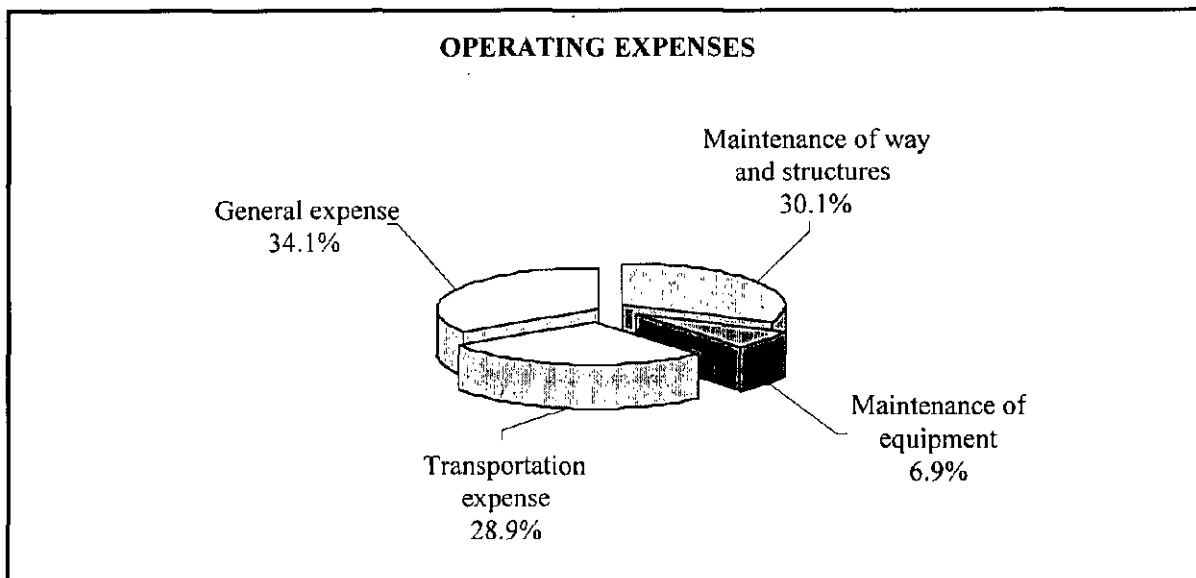
### Operating Revenues by Major Source

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Interline switching	\$ 7,119,169	\$ 4,832,762	\$ 2,286,407	47.3%
Intermediate switching	15,016,426	10,008,890	5,007,536	50.0%
CSXT Pacer Train handling	15,000	10,500	4,500	42.9%
Reordered and other switching	129,141	40,816	88,325	216.4%
Demurrage	113,759	56,560	57,199	101.1%
Miscellaneous revenue	987,426	1,800,236	(812,810)	(45.2%)
Total operating revenue	\$ 23,380,921	\$ 16,749,764	\$ 6,631,157	39.6%

There was a \$6,631,157 net increase in Public Belt Railroad's operating revenue for the year ended December 31, 2007. The Railroad saw increases in all types of revenue, except for miscellaneous revenue which declined by \$812,810. This decline was due solely to the relocation of one of the Public Belt's customers, Central Gulf Railway (CG Rail) to Alabama at the end of 2006. The Public Belt performs interline switching service for customers located along the wharves and industries of the Port of New Orleans and for storage customers who pay for railcar storage space on the Railroad's tracks. Additionally, the Public Belt performs intermediate switching service for the six Class One railroads that interchange in the New Orleans area, taking railcars from one railroad and delivering them to another.

## Operating Expenses

The following chart shows major expense categories and the percentage of operating expenses for the year ended December 31, 2007.



### Operating Expenses by Major Function

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Maintenance of way and structures	\$ 7,408,514	\$ 5,843,627	\$ 1,564,887	26.8%
Maintenance of equipment	1,698,498	1,394,403	304,095	21.8%
Transportation expense	7,136,076	5,045,251	2,090,825	41.4%
General expense	8,392,045	6,377,029	2,407,842	31.6%
Total operating expenses	\$ 24,635,133	\$ 18,660,310	\$ 5,974,823	32.0%

There was a \$5,974,823 net increase in operating expenses during the current year. Wages, salaries, and health benefit costs for all departments rose in 2007, accompanied by higher payroll tax expenses. Costs associated with employee injuries and repairs to equipment and tracks following derailments also increased this year.



## Non-Operating Revenues and Expenses

### Non-Operating Revenues

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Joint facility rent	\$ 308,873	\$ 504,756	\$ (195,883)	(38.8%)
Income from lease of road equipment	110	110	0	0.0%
Miscellaneous rent income	435,313	454,149	(18,836)	(4.0%)
Income from non-operating property	323,805	128,099	195,706	152.8%
Income from investments	455,950	364,536	91,414	25.1%
Miscellaneous income	126,963	107,700	19,263	17.9%
Total non-operating revenue	\$ 1,651,014	\$ 1,559,350	\$ 91,664	5.9%

The net increase of \$91,664 in Public Belt Railroad's non-operating revenues results mainly from an increase of \$195,706 (152.8%) in income from non-operating property. Non-operating property is land owned by the Railroad and leased to third parties, but which is not used in daily railroad operations.

### Non-Operating Expenses

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Hire of freight cars -- per diem	\$ 164,752	\$ 71,316	\$ 93,436	131.0%
Interest expense	120,758	91,718	29,040	31.7%
Total non-operating expenses	\$ 285,510	\$ 163,034	\$ 122,476	75.1%

\* NM = Not Meaningful

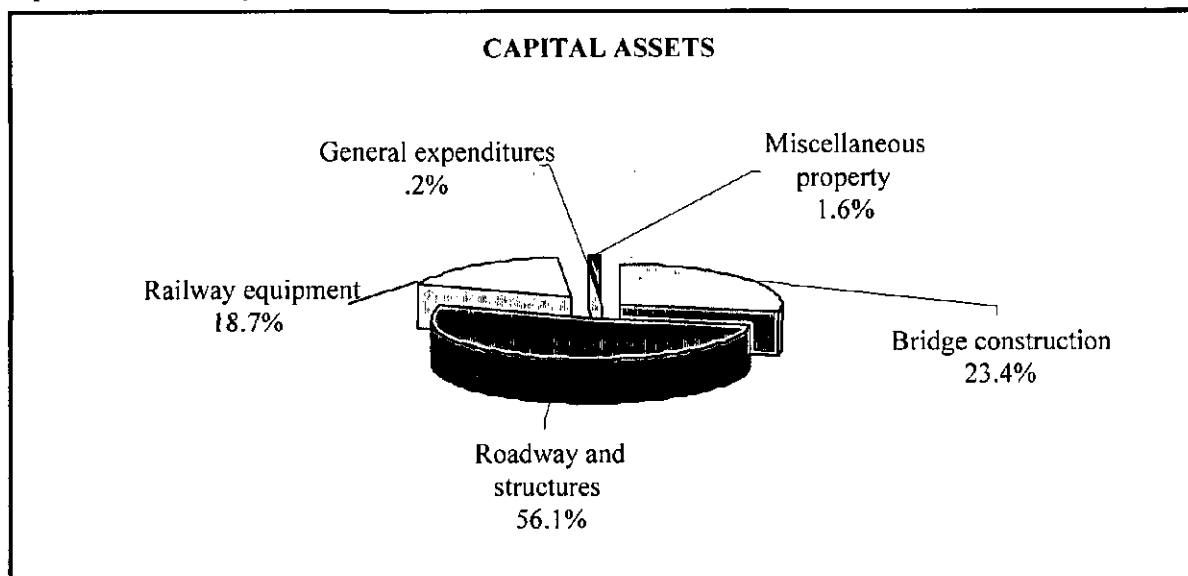
The net increase of \$122,476 in Public Belt Railroad's non-operating expenses is due in large part to increased expenses related to the hire of freight cars. Car hire is paid to railcar owners for the time the railcars spend on the Public Belt's line. The more time spent in active transportation, the more profitable the railcar is to its owner. Car hire represents compensation to railcar owners for time the cars are kept from active transportation and is standard throughout the railroad industry. In addition, the Commission incurred \$17,025 in interest expense this year related to the lease-purchase and refurbishment of two used locomotives. More detailed information about this long-term obligation can be found in Note 8 to the accompanying financial statements.

### Summary of Changes in Net Assets

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues	\$ 23,380,921	\$ 16,749,764	\$ 6,631,157	39.6%
Operating Expenses	24,635,133	18,660,310	5,974,823	32%
Income (Loss) before Tax				
Accruals and Reimbursement	(1,254,212)	(1,910,546)	(656,334)	(34.4%)
Payroll Tax Accruals	(1,500,056)	(1,256,923)	243,133	19.3%
Reimbursement from Joint Tenant				
Lines and State of Louisiana	7,742,333	6,245,987	1,496,346	24.0%
Railway Operating Income (Loss)	4,988,065	3,078,518	1,909,547	62%
Railway Rental Income, net	144,121	433,440	(289,319)	(66.7%)
Other Income	1,221,383	962,876	258,507	26.8%
Net Income (Loss)	\$ 6,353,569	\$ 4,474,834	\$ 1,878,735	42%

The Public Belt Railroad showed Operating Income of \$4,988,065 for the year ended December 31, 2007. An increase in tariff billing rates and a rise in the number of revenue railcars handled in 2007 as compared to 2006 ensured continued growth of the Public Belt Railroad's business through year end.

## Capital Asset Activity



## Capital Assets at Cost

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Bridge construction	\$ 13,062,121	\$ 12,366,564	\$695,557	0.9%
Roadway and structures	31,211,340	23,173,522	8,037,818	29.2%
Railway equipment	10,377,115	8,147,682	2,229,433	27.4%
General expenditures	108,697	108,697	-	1707.4%
Miscellaneous property	884,180	493,941	387,662	78.1%
Total Capital Assets at Cost	55,643,453	44,290,406	11,353,047	25.6%
Less Accumulated Depreciation	15,793,754	15,667,150	126,604	.8%
Net Capital Assets	\$ 39,849,699	\$ 28,623,256	\$ 11,226,443	39.2%

The Commission's investment in capital assets is summarized in the preceding table. The total increase in capital assets this fiscal year was \$11,353,047, 25.6% before accumulated depreciation and amortization. More detailed information can be found in Note 4 to the accompanying financial statements.

**Requests for Information**

This financial report is designed to provide a general overview of the Commission's finances. Questions concerning any of the information should be addressed to the Chief Financial and Mechanical Officer, New Orleans Public Belt Railroad, 4822 Tchoupitoulas Street, New Orleans, Louisiana 70115.

**PUBLIC BELT RAILROAD COMMISSION  
FOR THE CITY OF NEW ORLEANS**

**BALANCE SHEET  
AS OF DECEMBER 31, 2007**

	<b>Public Belt Railroad</b>	<b>Mississippi River Bridge</b>	<b>Combined</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash	\$ 784,990	\$ 457,016	\$ 1,242,006
Investments	161,427		161,427
Accounts receivable — net	6,212,380	2,892,726	9,105,106
Advances to the Mississippi River Bridge Fund for maintenance requisitions	1,796,523		1,796,523
Materials and supplies	1,562,769		1,562,769
Accrued interest and other current assets	121,510		121,510
Total current assets	<u>10,639,599</u>	<u>3,349,742</u>	<u>13,989,341</u>
<b>CAPITAL ASSETS — At cost:</b>			
Bridge construction		13,062,121	13,062,121
Roadway and structures	30,851,508	359,832	31,211,340
Railway equipment	10,377,115		10,377,115
General expenditures	108,697		108,697
Miscellaneous property	238,022	646,158	884,180
	<u>41,575,342</u>	<u>14,068,111</u>	<u>55,643,453</u>
Less accumulated depreciation	<u>(8,600,727)</u>	<u>(7,193,027)</u>	<u>(15,793,754)</u>
Total capital assets	<u>32,974,615</u>	<u>6,875,084</u>	<u>39,849,699</u>
<b>OTHER:</b>			
Investments — designated	4,000,000		4,000,000
Advances to the Mississippi River Bridge Fund for additions and betterments	1,811,360		1,811,360
Advances to Public Belt Railroad Fund		1,380,310	1,380,310
Total other	<u>5,811,360</u>	<u>1,380,310</u>	<u>7,191,670</u>
<b>TOTAL</b>	<u><b>\$49,425,574</b></u>	<u><b>\$11,605,136</b></u>	<u><b>\$ 61,030,710</b></u>

(Continued)

**PUBLIC BELT RAILROAD COMMISSION  
FOR THE CITY OF NEW ORLEANS**

**BALANCE SHEET  
AS OF DECEMBER 31, 2007**

	<b>Public Belt Railroad</b>	<b>Mississippi River Bridge</b>	<b>Combined</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Advances from the Public Belt Railroad Fund for maintenance requisitions	\$ -	\$ 1,796,523	\$ 1,796,523
Accounts payable	2,828,659	1,648,881	4,477,540
Accrued payroll, taxes and other accruals	1,892,286		1,892,286
Current Portion of capital lease obligation	139,950		139,950
Casualty and other reserves	<u>1,575,000</u>		<u>1,575,000</u>
Total current liabilities	<u>6,435,895</u>	<u>3,445,404</u>	<u>9,881,299</u>
<b>OTHER LIABILITIES AND DEFERRED CREDITS:</b>			
Advances from the Mississippi River Bridge Fund	1,380,310		1,380,310
Advances from the Public Belt Railroad Fund for additions and betterments		1,811,360	1,811,360
Capital lease obligation	<u>542,397</u>		<u>542,397</u>
Total other liabilities and deferred credits	<u>1,922,707</u>	<u>1,811,360</u>	<u>3,734,067</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)</b>			
<b>NET ASSETS:</b>			
Invested in capital assets — net of related debt	32,882,158	6,285,194	39,167,352
Unrestricted	<u>8,184,814</u>	<u>63,178</u>	<u>8,247,992</u>
Total net assets	<u>41,066,972</u>	<u>6,348,372</u>	<u>47,415,344</u>
<b>TOTAL</b>	<u><b>\$49,425,574</b></u>	<u><b>\$11,605,136</b></u>	<u><b>\$61,030,710</b></u>

See notes to financial statements.

(Concluded)

**PUBLIC BELT RAILROAD COMMISSION  
FOR THE CITY OF NEW ORLEANS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Public Belt Railroad</b>	<b>Mississippi River Bridge</b>	<b>Combined</b>
<b>OPERATING REVENUES:</b>			
Switching:			
Interline	\$ 7,119,169	\$ -	\$ 7,119,169
Intermediate	15,016,426		15,016,426
CSXT Pacer Train	15,000		15,000
Reordered and other	129,141		129,141
Total switching	<u>22,279,736</u>	<u>-</u>	<u>22,279,736</u>
Incidentals:			
Demurrage	113,759		113,759
Miscellaneous revenue	979,341	8,085	987,426
Total incidentals	<u>1,093,100</u>	<u>8,085</u>	<u>1,101,185</u>
Total operating revenues	<u>23,372,836</u>	<u>8,085</u>	<u>23,380,921</u>
<b>OPERATING EXPENSES:</b>			
Maintenance of way and structures	931,164	6,477,350	7,408,514
Maintenance of equipment	1,560,359	138,139	1,698,498
Transportation expense	6,689,639	446,437	7,136,076
General expense	7,504,895	887,150	8,392,045
Total operating expenses	<u>16,686,057</u>	<u>7,949,076</u>	<u>24,635,133</u>
INCOME (LOSS) BEFORE PAYROLL TAX ACCRUALS AND REIMBURSEMENT	6,686,779	(7,940,991)	(1,254,212)
PAYROLL TAX ACCRUALS	(1,427,654)	(72,402)	(1,500,056)
REIMBURSEMENT FROM JOINT TENANT LINES AND STATE OF LOUISIANA		7,742,333	7,742,333
RAILWAY OPERATING INCOME (LOSS)	<u>5,259,125</u>	<u>(271,060)</u>	<u>4,988,065</u>

(Continued)

**PUBLIC BELT RAILROAD COMMISSION  
FOR THE CITY OF NEW ORLEANS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Public Belt Railroad</b>	<b>Mississippi River Bridge</b>	<b>Combined</b>
RAILWAY RENTAL INCOME (EXPENSES):			
Hire of freight cars — per diem	\$ (164,752)	\$ -	\$ (164,752)
Joint facility rent	<u>239,283</u>	<u>69,590</u>	<u>308,873</u>
Total railway rental income	<u>74,531</u>	<u>69,590</u>	<u>144,121</u>
OTHER INCOME (EXPENSES):			
Income from lease of road equipment	110		110
Miscellaneous rent income	435,313		435,313
Interest expense	(17,025)	(103,733)	(120,758)
Income from nonoperating property	323,805		323,805
Income from investments	452,541	3,409	455,950
Miscellaneous income	<u>151</u>	<u>126,812</u>	<u>126,963</u>
Total other income	<u>1,194,895</u>	<u>26,488</u>	<u>1,221,383</u>
NET INCOME (LOSS)	6,528,551	(174,982)	6,353,569
NET ASSETS — Beginning of year	<u>34,538,421</u>	<u>6,523,354</u>	<u>41,061,775</u>
NET ASSETS — End of year	<u>\$41,066,972</u>	<u>\$ 6,348,372</u>	<u>\$47,415,344</u>

See notes to financial statements.

(Concluded)



**PUBLIC BELT RAILROAD COMMISSION  
FOR THE CITY OF NEW ORLEANS**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Public Belt Railroad</b>	<b>Mississippi River Bridge</b>	<b>Combined</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 22,598,818	\$ 5,981,206	\$ 28,580,024
Cash paid for materials and services	<u>(15,587,275)</u>	<u>(6,657,915)</u>	<u>(22,245,190)</u>
Net cash provided by (used in) operating activities	<u>7,011,543</u>	<u>(676,709)</u>	<u>6,334,834</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Property additions — net	(9,029,371)	(493,327)	(9,522,698)
Payments under capital lease	(67,653)		(67,653)
Net advances to Mississippi River Bridge Fund for additions and betterments	<u>(503,612)</u>	<u>503,612</u>	<u>-</u>
Net cash (used in) provided by capital and related financing activities	<u>(9,600,636)</u>	<u>10,285</u>	<u>(9,590,351)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from maturities of investments — net	565,492		565,492
Cash received for interest	<u>363,035</u>	<u>3,409</u>	<u>366,444</u>
Net cash provided by investing activities	<u>928,527</u>	<u>3,409</u>	<u>931,936</u>
<b>NET DECREASE IN CASH</b>	<b>(1,660,566)</b>	<b>(663,015)</b>	<b>(2,323,581)</b>
<b>CASH — Beginning of year</b>	<u><b>2,445,556</b></u>	<u><b>1,120,031</b></u>	<u><b>3,565,587</b></u>
<b>CASH — End of year</b>	<u><b>\$ 784,990</b></u>	<u><b>\$ 457,016</b></u>	<u><b>\$ 1,242,006</b></u>

(Continued)

**PUBLIC BELT RAILROAD COMMISSION  
FOR THE CITY OF NEW ORLEANS**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Public Belt Railroad</b>	<b>Mississippi River Bridge</b>	<b>Combined</b>
<b>RECONCILIATION OF NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 6,528,551	\$ (174,982)	\$ 6,353,569
Adjustments to reconcile net income (loss) to net cash provided by (used in) activities:			
Income from investments	(452,541)	(3,409)	(455,950)
Depreciation	752,846	151,825	904,671
(Increase) in accounts receivable	(1,729,438)	(1,965,614)	(3,695,052)
(Decrease) increase in advances for maintenance requisitions	(256,480)	256,480	-
Decrease in materials and supplies	1,143,123		1,143,123
(Decrease) increase in accounts payable	(293,338)	1,058,991	765,653
Increase in accrued payroll and taxes	633,271		633,271
Increase in casualty and other reserves	685,549		685,549
Net cash provided by (used in) operating activities	<u>\$ 7,011,543</u>	<u>\$ (676,709)</u>	<u>\$ 6,334,834</u>
<b>NONCASH TRANSACTIONS FROM INVESTING ACTIVITIES:</b>			
Accruals for capital expenditures	\$ 1,265,949	\$ 589,890	\$ 1,855,839
Capital lease	750,000		750,000

See notes to financial statements.

(Concluded)

# **PUBLIC BELT RAILROAD COMMISSION FOR THE CITY OF NEW ORLEANS**

## **NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements in this report present the financial condition, results of operations and cash flows of the Public Belt Railroad Commission for the City of New Orleans ("Commission") including its railroad system fund ("Public Belt Railroad") and its bridge operations fund ("Mississippi River Bridge"). The Commission operates a railroad system in and around the City of New Orleans as well as a bridge across the Mississippi River ("Huey P. Long Bridge").

The accompanying policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to proprietary component units of governmental entities. A summary of the Commission's significant accounting policies follows:

**Basis of Presentation — Fund Accounting** — The proprietary funds are used to account for the Commission's ongoing operations and activities which are similar to those in the private sector. Proprietary funds are accounted for using a flow of economic resource measurement focus under which all assets and all liabilities associated with the operation of these funds are included in the balance sheets. The operating statements present increases (revenues) and decreases (expenses) in total net assets. The Commission maintains two separate proprietary funds — the Public Belt Railroad and the Mississippi River Bridge.

**Basis of Accounting** — The Commission prepares financial statements in accordance with accounting principles generally accepted in the United States. Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Commission has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB"), excluding those issued after November 30, 1989.

**Basis of Reporting** — Effective January 1, 2003, the Commission adopted GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments* and also the required portions of GASB Statements No. 37 and 38, which modified the disclosure requirements of GASB No. 34. GASB No. 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net assets into three components — invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

**Invested in Capital Asset — Net of Related Debt** — This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted** — This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** — This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Investments** — Investments are recorded at fair value in accordance GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties and has generally been based upon quoted values. This method of accounting causes fluctuations in reported investment values based on fluctuations in the investment market. Fluctuations in the fair value of investments are recorded as income or expense in the statements of revenues, expenses and changes in net assets. The Commission recorded a gain of approximately \$63,145 in 2007 due to changes in the market value of investments. The Commission applies the provisions of the Statement to all of its investments.

**Accounts Receivable** — Accounts receivable are carried in the financial statements net of an allowance for doubtful accounts, which has been determined based on an analysis of outstanding accounts at December 31. No allowance was recorded at December 31, 2007, since all accounts were deemed collectible.

**Materials and Supplies** — Materials and supplies are valued at the lower of cost or market on the first-in, first-out (“FIFO”) method.

**Capital Assets** — Capital assets are recorded at cost. The current cost of repairs is charged to operating expense. All property additions are capitalized and depreciated on the straight-line basis over the estimated service lives. Annual depreciation rates range from 1.75% to 10%. When assets or equipment are retired or sold, the cost, net of accumulated depreciation, is removed from the accounts.

**Income Tax Provisions** — Income tax provisions for federal and state income taxes have not been provided as the Commission is a tax exempt entity.

**Revenues and Reimbursements** — Revenues and reimbursements are recorded as services are performed. Approximately 62% of the 2007 revenues of the Public Belt Railroad Fund were derived from two customers. All of the reimbursements recorded by the Mississippi River Bridge Fund are derived from the State of Louisiana and two other customers under a long-term contract.

**Statement of Cash Flows** — The statement of cash flows reflects all amounts included on the balance sheet caption “cash” as cash equivalents.

**Total Columns** — Total combined columns on the financial statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in accordance with accounting principles generally accepted in the United States of America. Such data is not comparable to a consolidation.

## 2. INVESTMENTS

At December 31, 2007, investments consist of the following (at fair value):

Certificates of deposit	\$1,478,396
GNMA, FNMA, and FHLMC securities	<u>2,683,031</u>
	4,161,427
Less designated portion (Note 3)	<u>4,000,000</u>
	<u>\$ 161,427</u>

In compliance with state laws, those deposits not covered by depository insurance are secured by bank owned securities specifically pledged to the Commission and held in joint custody by an independent custodian bank. The Commission recognizes all purchases of investments with a maturity of three months or less, except for short-term repurchase agreements, as cash equivalents.

**Credit Risk** — Statutes authorize the Commission to invest in the following types of investment securities:

1. Fully-collateralized certificates of deposit issued by qualified commercial banks, federal credit unions and savings and loan associations located within the State of Louisiana.
2. Direct obligations of the U.S. Government, including such instruments as treasury bills, treasury notes and treasury bonds and obligations of U.S. Government agencies that are deliverable on the Federal Reserve System.
3. Repurchase agreements in government securities in (2) above made with the 36 primary dealers that report to and are regulated by the Federal Reserve Bank of New York.
4. Guaranteed Investment Contracts with companies with good credit ratings.

The Commission has no investment policy that would further limit its investment choices beyond the restrictions imposed by the State. At December 31, 2007, the Commission's investments in GNMA and FNMA are at least rated AAA by Standard and Poor's or Aaa by Moody's Investors Services. The Commission has no limit on the amount it may invest in any one issuer so long as the State's restrictions are followed.

**Interest Rate Risk** — As a means of limiting its exposure to fair value losses arising from rising interest rates the Commission does not make investments with long maturities. By using this method, the Commission believes that it will mitigate its interest rate risk.

The Commission has investments in certificates of deposit with a weighted average maturity of approximately one month and GNMA and FNMA certificates with a weighted average maturity of approximately five years.

**Custodial Risk** — For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2007, the Commission is not exposed to custodial credit risk with respect to its investments because all investments are either insured

by federal depository insurance, registered in the name of the Commission or collateralized by other investments pledged in the name of the Commission.

Cash and certificates of deposit are fully collateralized by securities held for the Commission's benefit at the Federal Reserve Bank in New Orleans, Louisiana. The book balances of cash approximated the bank balances at December 31, 2007.

### 3. INVESTMENTS — DESIGNATED

The Commission established an Insurance Cash Reserve Fund in a prior year and authorized increasing the fund monthly. Disbursements from the Insurance Cash Reserve Fund can be made only for payment of personal injury and property damage claims upon approval by the Board of Commissioners. Interest earned on this fund is deposited in the general fund to be used for current operations. The balance of the Insurance Cash Reserve Fund was \$4,000,000 at December 31, 2007. The Insurance Cash Reserve Fund is considered a component of unrestricted net assets since it represents an internally imposed designation rather than an externally imposed restriction.

### 4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2007, is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Cost:				
Bridge construction	\$ 12,366,564	\$ 783,648	\$ (88,091)	\$ 13,062,121
Roadway and structures	23,173,522	9,158,679	(1,120,861)	31,211,340
Railway equipment	8,147,682	2,349,465	(120,032)	10,377,115
General expenditures	108,697			108,697
Miscellaneous property	<u>493,941</u>	<u>396,204</u>	<u>(5,965)</u>	<u>884,180</u>
Total	<u>44,290,406</u>	<u>12,687,996</u>	<u>(1,334,949)</u>	<u>55,643,453</u>
Less accumulated depreciation and amortization:				
Bridge construction	(6,938,157)	(121,301)		(7,059,458)
Roadway and structures	(6,771,307)	(403,921)	676,349	(6,498,879)
Railway equipment	(1,850,642)	(348,924)	97,718	(2,101,848)
Miscellaneous property	<u>(103,044)</u>	<u>(30,525)</u>		<u>(133,569)</u>
Total	<u>(15,663,150)</u>	<u>(904,671)</u>	<u>774,067</u>	<u>(15,793,754)</u>
Property and equipment — net	<u>\$ 28,627,256</u>	<u>\$ 11,783,325</u>	<u>\$ (560,882)</u>	<u>\$ 39,849,699</u>

### 5. CASUALTY RESERVES

The Commission is a defendant in legal proceedings which seek compensation for personal injury and/or property damage. The Commission has established a reserve for personal injury and property damage claims that represents an estimate of its liability under these actions.

During the year ended December 31, 2007, the Commission added approximately \$483,904 to the reserve and paid out approximately \$1,375,551. In addition, the Commission incurred approximately \$338,967 in related legal fees during the year ended December 31, 2006.

## 6. RETIREMENT PLANS

The Commission made contributions totaling \$60,000 in 2007 to an employer-funded 401(a) pension plan for nonunion employees. Benefits to the participants will be paid based on the ratio of the eligible participants' units to the total units of all eligible participants. One unit is allocated for each half-year of service in an exempted position and one unit for each \$1,000 of salary in each eligible year.

Prior to December 31, 1990, the Commission accrued contributions to a defined benefit unfunded pension reserve for nonunion employees. The Commission determined that the balance accrued at December 31, 1990, would be sufficient to cover all benefits to be paid under the Plan and, accordingly, no additional accruals have been made under the Plan.

## 7. INTERFUND TRANSACTIONS

The Public Belt Railroad provides funds for additions and betterments to the Mississippi River Bridge but is not reimbursed until retirement of the related asset occurs. Advances to the Mississippi River Bridge for additions and betterments were \$1,811,359 at December 31, 2007. The Commission also provides material, labor and other miscellaneous expenditures related to maintenance of the Bridge to the Mississippi River Bridge Fund. This is billed monthly and generally collected from the Mississippi River Bridge Fund within a three-month period. The balance payable at December 31, 2007, was \$1,796,523. The Public Belt Railroad Fund also had a liability to the Mississippi River Bridge Fund for \$1,380,309 at December 31, 2007.

## 8. COMMITMENTS AND CONTINGENCIES

**Capital Lease Obligation** — During the year ended December 31, 2007, the Public Belt Railroad entered into an agreement to purchase certain railroad equipment and finance it under arrangements with a local bank. The agreement calls for 10 semi-annual payments of \$84,679 including interest at 4.54% through 2012. The loan may be repaid in full after June 29, 2010, with no prepayment penalty. Future minimum lease payments as of December 31, 2007, are as follows:

2008	\$ 169,358
2009	169,358
2010	169,358
2011	169,358
2012	<u>84,679</u>
Total minimum lease payments	762,109
Less amounts representing interest (4.54%)	<u>79,762</u>
Present value of future minimum lease payments	682,347
Less current portion of capital lease obligations	<u>139,950</u>
Capital lease obligations — excluding current portion	<u>\$ 542,397</u>

\* \* \* \* \*

## **ADDITIONAL INFORMATION**





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## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the President and Members of  
Public Belt Railroad Commission  
for the City of New Orleans  
New Orleans, Louisiana

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on page 24 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Public Belt Railroad Commission for the City of New Orleans management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Deloitte & Touche LLP*

July 25, 2008

**PUBLIC BELT RAILROAD COMMISSION  
FOR THE CITY OF NEW ORLEANS  
MISSISSIPPI RIVER BRIDGE**

**SCHEDULE OF OPERATING STATISTICS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

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	<b>2007</b>	<b>2006</b>
NUMBER OF RAILWAY CARS CROSSING THE BRIDGE DURING THE YEAR	508,212	501,949
NUMBER OF BRIDGE EMPLOYEES AT YEAR END	30	28



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

To the President and Members of  
Public Belt Railroad Commission  
for the City of New Orleans  
New Orleans, Louisiana

We have audited the basic financial statements of the individual funds of the Public Belt Railroad Commission for the City of New Orleans (the "Commission") as of and for the year ended December 31, 2007, and have issued our report thereon dated July 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the control deficiencies described below to be significant deficiencies in internal control over financial reporting.

### **Finding 2007-1**

The controls over the recording of fixed asset additions are not designed effectively. The Commission does not have a construction in progress account to record those fixed assets that are under construction and are not placed in service. As a result depreciation expense was taken against assets not placed in service.

**Management Response** — Management agrees with the above comments and will institute procedures to ensure that these activities are performed on a timely basis in the future.

### **Finding 2007-2**

The controls over the financial statement closing process did not operate effectively. The Commission did not prepare accurate account reconciliations (including cash, inventory, accounts receivable and accounts payable) and financial reports on a timely basis, nor did they perform related internal control activities including financial statement reviews on a timely basis.

**Management Response** — Management agrees with the above comments and will institute procedures to ensure that these activities are performed on a timely basis in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control. However, of the deficiencies described above we consider item 2007-2 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance and other matters that are required to be reported under Government Auditing Standards which is described below.

### **Finding 2007-3**

**Late Filing of Audited Financial Statements** — In accordance with Louisiana Revised Statute 24:513 and the Louisiana Governmental Audit guide, the Commission is required to submit financial statements audited in accordance with Government Auditing Standards within six months of the close of the fiscal year. The Commission did not file its December 31, 2007 financial statements by June 30, 2008.

**Management Response** — Management agrees with the above comment and will institute procedures to ensure that future reports are submitted on a timely basis.

We noted certain matters that we reported to management of the Commission in a separate letter dated July 25, 2008.

The Commission's responses to the findings identified in our audit are described above. We did not audit the Commission's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Commission, management, and others within the Commission and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513 this report is distributed by the Legislative Auditor as a public document.

*Deloitte & Touche LLP*

July 25, 2008



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July 25, 2008

The President and Members of the Public Belt Railroad  
Commission for the City of New Orleans  
4822 Tchoupitoulas Street  
New Orleans, LA 70115

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Public Belt Railroad Commission for the City of New Orleans (the "Commission") as of and for the year ended December 31, 2007 (on which we have issued our report dated July 25, 2008, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States ("generally accepted government auditing standards"), we considered the Commission's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Commission's internal control over financial reporting*.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, in connection with our audit, we have identified, and included in the attached Appendix, certain matters involving the Commission's internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have also identified, and included in the attached Appendix, other control deficiencies involving the Commission's internal control over financial reporting as of December 31, 2007 that we wish to bring to your attention.

The definitions of a control deficiency, a significant deficiency, and a material weakness are also set forth in the attached Appendix.

Although we have included management's written response to our comments in the attached Appendix, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Exhibit and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Commission, and the State of Louisiana and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

*Deloitte & Touche LLP*

## APPENDIX

### Section I — Material Weaknesses

We consider the following deficiency in the Commission's internal control over financial reporting to be a material weakness:

The controls over the financial statement closing process did not operate effectively. The Commission did not prepare accurate account reconciliations (including cash, inventory, accounts receivable and accounts payable) and financial reports on a timely basis, nor did they perform related internal control activities including financial statement reviews on a timely basis.

**Management Response** — Management agrees with the above comments and will institute procedures to ensure that these activities are performed on a timely basis in the future.

### Section II — Significant Deficiencies

We consider the following deficiency in the Company's internal control over financial reporting to be a significant deficiency:

The controls over the recording of fixed asset additions are not designed effectively. The Commission does not have a construction in progress account to record those fixed assets that are under construction and are not placed in service. As a result depreciation expense was taken against assets not placed in service.

**Management Response** — Management agrees with the above comments and will institute procedures to ensure that these activities are performed on a timely basis in the future.

### Section III — Other Control Deficiencies

We identified the following other control deficiencies involving the Company's internal control over financial reporting as of December 31, 2007 that we wish to bring to your attention:

The controls over the financial statement reporting process did not operate effectively. The Commission's management review of financial statements is not detailed enough to detect potential classification errors. Audit reclassification entries were noted for cash, accounts payable and depreciation expense, for errors related to improper account classification.

**Management Response** — Management agrees with the above comments and will institute procedures to ensure that these activities are performed on a timely basis in the future.

### Section IV — Definitions

The definitions of a control deficiency, a significant deficiency, and a material weakness that are established in AU 325, Communicating Internal Control Related Matters Identified in an Audit, are as follows:

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does



not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

## EXHIBIT

### **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

#### **Management's Responsibility**

The Commission's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

#### **Objectives of Internal Control Over Financial Reporting**

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

#### **Inherent Limitations of Internal Control Over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

\* \* \* \* \*